TWO DOT WIND FARM COMMENTS:

INTRODUCTION

OwnEnergy and Two Dot Wind, LLC are jointly developing a 10MW community wind project located in Wheatland County, Montana that will be interconnected with NorthWestern Energy (NorthWestern). This project, Two Dot Wind Farm, has the potential to create significant economic benefits for the landowners, the county, and local small businesses and residents. It can create approximately 26 full-time-equivalent jobs during construction and up to 5 permanent jobs during operation. Moreover, it will create close to $4 million in property tax revenues to the county, which is an economically depressed county according to the latest census information. Two Dot Wind Farm will be a qualifying facility (QF) under the Public Utility Regulatory Policies Act of 1978, as amended (PURPA). Two Dot Wind, LLC, one of the owners of the Two Dot Wind Farm, is a Montana based small business and wind energy developer that is funded and managed by Montana residents and entrepreneurs, Dr. David Healow and Mr. Dana Dogterom. OwnEnergy is a Community Wind developer of mid-sized, utility scale wind projects that enable landowners and communities to build and profit directly from their own local wind farms. The company is based in Brooklyn, New York

TWO DOT WIND FARM POSITION:

The intent of PURPA is to promote diversification of a utility's fuel mix, and to promote the development of all forms of renewable energy. The Public Service Commission (Commission) is contemplating a staff recommendation to reduce the maximum qualifying facility (QF) size for standard offer rates from 10 MW to 2 MW. The original reasoning for the 10 MW Cap was to enable QF developers to take advantage of some economies of scale and overcome transaction costs. The Commission staff believes the 10 MW size is not needed as a response to higher transaction costs.

In 2007, the Commission increased the Cap to 10 MW, reasoning that this increase was necessary to encourage QF power production and overcome transaction cost-based market barriers small QFs face when negotiating contracts with monopoly utilities. The Commission found that 10 MW was consistent with similar thresholds established by other utility commissions (e.g., Oregon and Idaho) and FERC rules implementing the 2005 Energy Policy Act. Docket No. D2003.7.86 *et al.,* Order Nos. 6501f and 6501g. MSIRG asserted that a 10 MW threshold would enable QF developers to take advantage of economies of scale and overcome transaction costs. *Id.* MSIRG Br. pp. 32-33. Despite the stated beliefs of the

Commission staff, significant evidence continues to support the reasoning for the 10 MW Cap and refutes the justification provided to reduce the Cap to 2 MW.

Change in size

We believe that changes should not be made to the 10 MW cap for qualifying facilities for economic and public policy reasons. The current 10 MW size for qualifying facilities encourages renewable energy projects supported by proven technology. The size is not the root cause of the issue, but rather more attention and accuracy ought to be placed on calculating NWEs true avoided cost. If the avoided cost were calculated correctly, and updated periodically, the market would be free to determine if it could compete at that true avoided cost. Both the ratepayers of NWE, and independent developers win under this scenario. Reducing the cap for QF projects to 2 MWs will make these utility plants less competitive due to the lack of economies of scale. A 10 MW plant is already disadvantaged in this regard when compared with a larger plant, but the Montana market has proven that 10 MWs can compete. Reducing the size further will tend to exacerbate the economies of scale issue.

Justification for proposed 2MW Cap

The justification for the proposed 2 MW Cap is based on the staff belief that the 10 MW size is not needed as a response to high transaction costs. However, the U.S. Department of Energy - 2009 Wind Technologies Market Report[1] does not support this perspective. The relevant point is that wind projects less than 5 MW have the highest installed cost per watt of any size wind project. Therefore, if it is the intent of the Commission to encourage the least competitive and most expensive projects, reducing the Cap to 2 MW would be a prudent. However, if the Commission seeks to reduce the real economic costs (i.e., higher cost of service and misallocation of societal resources) of acquiring QF resources, then the 10 MW Cap should remain in place and potentially be increased to 20 MW. More focus should be placed on an accurate assessment of the cost for NWE to build, own and operate that 10 MW (or 20 MW) plant.

The justification also ignores the economies of scale that a larger 10 MW project attains as compared to 2 MW projects. As part of staff justification, it is noted and we agree that land leasing costs and model projections are similar on a per megawatt basis, regardless of project size. However, the development costs of acquiring commercial scale turbines, collection of wind data, transmission interconnection as well as construction costs, crane mobilization, road improvements, and environmental permitting costs are reduced on a per megawatt basis and will benefit from a larger 10 MW project as compared to a 2 MW project.

Similar to standard rate setting dockets, developing renewable energy projects as qualifying facilities requires a lengthy and contentious development process that depends heavily on long-term projections of variables that are highly uncertain, and occur within dynamic wholesale energy markets and regulatory regimes. A significant benefit of the 10 MW Cap is the increase in financing certainty afforded to larger projects, as there are greater quantity of investors investing in 10 MW projects as compared to 2 MW projects. Therefore, reducing the Cap to 2 MW will only serve to discourage the development of renewable energy.

[1] http://www1.eere.energy.gov/wind/pdfs/2009_wind_technologies_market_report.pdf

The justification Staff provided for the proposed 2 MW Cap is based on the legality of the proposed project size and the fast-track process for interconnection available to projects which are 2 MW or smaller. The fast-track process does afford smaller 2 MW projects a quicker process and reduced study costs as compared to 10 MW projects. However, this benefit is vastly overshadowed by the additional hurdles and costs that 2 MW projects encounter due to size; including the difficulty of attaining project financing, acquiring turbines, and the higher costs of mobilizing the construction equipment, amongst other lifecycle costs not previously discussed.

Therefore, we believe the justification provided for the 2 MW Cap is short sighted, does not contemplate the detrimental impact of the proposed change, will discourage renewable energy development, and directly contradicts the stated intent of PURPA. If the Commission does reduce the maximum qualifying facility size for standard offer rates to 2 MW, OwnEnergy and other developers of midsized utility scale renewable energy projects will be squeezed out of the state of Montana.